

Message Text

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ORIGIN EB-11

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DRAFTED BY EB/IFD/OIA:MKENNEDY/WHCOURTNEY

APPROVED BY EB/IFD/OIA:MKENNEDY

E:MR. BILLER

S/S-O P. SARROS

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O P 272313Z SEP 73 ZFF4

FM SECSTATE WASHDC

TO AMEMBASSY WARSAW NIACT IMMEDIATE

AMEMBASSY NAIROBI PRIORITY

INFO AMEMBASSY TEHRAN PRIORITY

UNCLAS STATE 193105

TOECO 68

E.O. 11652: N/A

TAGS: EFIN

SUBJ: OPIC

TOECO NAIROBI FOR UNDERSECRETARY CASEY

WARSAW FOR ASSISTANT SECRETARY ARMSTRONG - TO BE DELIVERED

TO MR. ARMSTRONG PRIOR TO HIS 6:00 A.M. (SEPT. 28) BOARDING

OF FLIGHT TO TEHRAN

TEHRAN FOR ASSISTANT SECRETARY ARMSTRONG

NAIROBI FOR DEPUTY ASSISTANT SECRETARY WEINTRAUB

REF: (A) STATE 191651; (B) STATE 192126

1. FOLLOWING IS DRAFT TEXT OF A LETTER FROM THE SECRETARY
TO SENATOR CHURCH (REF. A).

THANK YOU FOR GIVING US AN OPPORTUNITY TO COMMENT ON
THE FOUR PROPOSALS FOR OPIC'S FUTURE WHICH THE SUBCOMMITTEE
IS CONSIDERING. THE SUBCOMMITTEE HAS NOTED THE SEVERAL,
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AND NOT ALWAYS CONSISTENT GUIDING PURPOSES IN THE

PRESENT OPIC PROGRAM. WE SHARE THAT CONCERN, AND THAT OUR DEVELOPMENTAL OBJECTIVES SHOULD BE SERVED AT A MINIMUM OF POLITICAL AND FISCAL COST. OVER THE PAST SEVERAL MONTHS, WE HAVE BEEN ENGAGED IN A COMPREHENSIVE REVIEW OF OPIC PROGRAMS, AND ARE CONTINUING THAT REVIEW. I WOULD LIKE TO COMMENT ON THREE MAIN ASPECTS OF THE SUBCOMMITTEE'S CONCERN.

WE BELIEVE THAT FOREIGN INVESTMENT IS A NECESSARY AND VITAL PART OF THE DEVELOPMENT PROCESS. I AM SURE THE SUBCOMMITTEE HAS HAD ACCESS TO THE PEARSON AND PETERSON REPORTS AND TO THE MANY OTHER REPORTS FROM THE UN, THE WORLD BANK, AND THE OECD AS WELL AS U.S. GOVERNMENT STUDIES. I MIGHT NOTE THAT THE CONTRIBUTION OF FOREIGN AFFILIATES OF OUR MAJOR CORPORATIONS IN ONE YEAR TO THE DEVELOPING WORLD--DOLS 4.6 BILLION IN TAXES, DOLS 2.1 BILLION IN WAGES, AND DOLS 12.6 BILLION IN FOREIGN EXCHANGE EARNED THROUGH EXPORTS--IS NOT INCONSIDERABLE.

NO ONE DENIES THAT THE IMPACT OF FOREIGN INVESTMENT DOES NOT BENEFIT ALL SECTORS AND AREAS OF A DEVELOPING COUNTRY EQUALLY, OR THAT IT HAS ITS COSTS AS WELL AS ITS BENEFITS. THAT, ON BALANCE, IT IS BENEFICIAL IS ATTESTED TO BY THE WELCOME ACCORDED TO IT BY AN OVERWHELMING MAJORITY OF DEVELOPING COUNTRIES. THE RAPID GROWTH OF THE ECONOMIES OF KOREA, OF INDONESIA, OF BRAZIL AND MANY OTHERS, THANKS IN LARGE MEASURE TO FOREIGN INVESTMENT, ARE FAMILIAR TO THE SUBCOMMITTEE.

I AGREE ENTIRELY WITH THE SUBCOMMITTEE'S STATEMENT THAT OPIC SHOULD INSURE PROJECTS WHICH ARE BENEFICIAL TO THE HOST COUNTRY, AND THAT ITS DEVELOPMENTAL CRITERIA SHOULD BE AS RIGOROUSLY DEFINED AS POSSIBLE. I SHOULD ADD THAT THE HOST COUNTRY HAS THE RESPONSIBILITY TO DETERMINE ITS OWN DEVELOPMENTAL PRIORITIES, AND NEED ONLY ACCEPT SUCH PRIVATE INVESTMENT AS ACCORDS WITH THEM. FOR THAT END, EVERY OPIC-INSURED PROJECT MUST BE APPROVED IN ADVANCE BY THE HOST COUNTRY, IN THE LIGHT OF ITS OWN GOALS.

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IN ADDITION, OPIC ENFORCES ITS OWN DEVELOPMENTAL CRITERIA. THERE MAY, HOWEVER, BE SOME INCONSISTENCY BETWEEN THAT PUBLIC PURPOSE, AND THE COMMERCIAL CRITERIA WHICH WOULD HAVE TO GOVERN A PRIVATIZED OPIC. TRYING TO MELD THESE VERY DIFFERENT CRITERIA IN ONE PROGRAM IS NOT EASY. THE ADMINISTRATION HAS SOUGHT LEGISLATION TO ENABLE IT TO TEST OUT THE FEASIBILITY OF A PRIVATE INVESTMENT INSURANCE PROGRAM. CONSIDERABLY MORE EXPERIMENTATION IS

NEEDED, BEFORE WE CAN PROVIDE THE ANSWER REQUESTED IN THE FOURTH POINT OF YOUR LETTER. I AM NOT AT ALL SATISFIED THAT PRIVATIZATION WILL MEET OUR PUBLIC POLICY REQUIREMENTS. MOREOVER, I AM INFORMED THAT THE INSURANCE INDUSTRY HAS INDICATED THAT IT WILL REQUIRE CONSIDERABLY MORE EXPERIENCE BEFORE IT WILL BE WILLING TO MAKE THE

NECESSARY LONG-TERM COMMITMENTS. NEITHER PARTY IS PREPARED TO MEET THE SCHEDULE OF PRIVATIZATION PROPOSED TO YOUR SUBCOMMITTEE.

I UNDERSTAND THAT THERE ARE PROPOSALS BEFORE YOU WHICH ENVISAGE PROHIBITIVE LEGISLATION CONCERNING OPIC INSURANCE FOR PROJECTS IN THE KHMER REPUBLIC, LAOS AND VIET-NAM. I THINK THAT INCLUDING SUCH PROHIBITIVE LANGUAGE WOULD BE MOST UNDESIRABLE. THESE COUNTRIES DESERVE THE FULL BENEFITS OF PRIVATE INVESTMENT TO DEVELOP THEIR ECONOMIES IN TIME OF PEACE. TO DENY THEM THE BENEFITS OF OPIC STIMULATED INVESTMENT NOW, AS CONFLICT PASSES, WOULD BE TO DEAL THEIR HOPES FOR DEVELOPMENT AN UNMERITED REBUFF. PROGRAMS DESIGNED TO FOSTER RELIEF, REHABILITATION, DEVELOPMENT AND MORE NORMAL RELATIONS ARE EVOLVING. I WOULD URGE THE STRONGEST SUPPORT FOR SUCH MEASURES WHICH INCLUDE MORE INVOLVEMENT BY INSTITUTIONS (INCLUDING OPIC), A LARGER NUMBER OF DONOR NATIONS, AND THE DEVELOPMENT POTENTIAL OF A VIGOROUS FLOW OF NEEDED PRIVATE INVESTMENT FROM MANY NATIONS.

IN CONCLUSION, I RECOMMEND THAT THE PROGRAM BE CONTINUED DURING A TWO-YEAR PERIOD OF EXPERIMENTATION AND ADAPTATION, DURING WHICH WE PROPOSE TO WORK CLOSELY WITH THE CONGRESS. END TEXT

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2. WE WOULD APPRECIATE YOUR COMMENTS ON DRAFT LETTER BEFORE COB FRIDAY WASHINGTON TIME. WHEN RECEIVED WE WILL PREPARE NEW STATE/AID DRAFT FOR WEEKEND DISTRIBUTION TO CIEP, TREASURY, COMMERCE AND OPIC. WE HOPE TO HAVE FINAL DRAFT EMBODYING AGENCY COMMENTS FOR MR. ARMSTRONG'S REVIEW MONDAY MORNING. KISSINGER

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